

Internal Revenue Service

Number: **200703030**

Release Date: 1/19/2007

Index Number: 355.01-00

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:B03

PLR-140909-06

Date:

October 17, 2006

Parent =

Distributing =

LLC 1 =

LLC 2 =

LLC 3 =

LLC 4 =

Controlled 1 =

Controlled 2 =

Controlled 3 =

Controlled 4 =

Controlled 5 =

Controlled 6 =

Controlled 7 =

Controlled 8 =

Controlled 8 Sub =

Business A =

Business B =

aa =

bb	=
cc	=
State R	=
State S	=
State T	=
State U	=
State V	=
State W	=
State X	=
State Y	=

Dear :

We respond to your request dated August 7, 2006, for rulings on the Federal income tax consequences of a proposed transaction. Additional information was received in letters dated October 2, 2006 and October 17, 2006. The material information submitted for consideration is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process. Moreover, no information provided by the taxpayer has been reviewed and no determination has been made regarding whether the proposed transaction: (i) satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations; (ii) is used principally as a device for the distribution of the earnings and profits of the distributing corporation or any of the controlled corporations or both (see section 355(a)(1)(B) of the Internal Revenue Code and § 1.355-2(d)); or (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any of the controlled corporations (see section 355(e)(2)(A)(ii) and § 1.355-7T).

Parent is a State R corporation and is the common parent of an affiliated group of corporations that files a consolidated Federal income tax return utilizing an accrual method of accounting. Parent wholly owns LLC 1, a State R limited liability company that has elected to be treated as a disregarded entity for Federal income tax purposes. Parent also owns all the outstanding stock of Distributing, a State R corporation. Distributing is engaged directly in Business A. Distributing wholly owns LLC 2, LLC 3, and LLC 4, all of which are limited liability companies which have elected to be treated as disregarded entities for Federal income tax purposes.

LLC 2, a State U limited liability company, owns all of the issued and outstanding stock of Controlled 1, Controlled 2, and Controlled 3. Controlled 1, Controlled 2, and Controlled 3 is a State V corporation, a State W corporation, and a State X corporation, respectively, and each is engaged directly in Business A.

LLC 3, a State S limited liability company, owns all of the issued and outstanding stock of Controlled 4, Controlled 5, Controlled 6, and Controlled 7. Controlled 4, Controlled 5, and Corporation 6 is a State T corporation, a State R corporation, and a State S corporation, respectively, and each is engaged directly in Business A. Controlled 7 is a State R corporation and is engaged directly in Business B. In addition, LLC 3 owns aa percent of the issued and outstanding stock of Controlled 8 Sub, which is a State R corporation.

LLC 4, a State R limited liability company, owns all the issued and outstanding stock of Controlled 8, which is a State Y corporation engaged directly in Business A. Controlled 8 owns bb percent of the issued and outstanding stock of Controlled 8 Sub.

Controlled 1, Controlled 2, Controlled 3, Controlled 4, Controlled 5, Controlled 6, Controlled 7, and Controlled 8 are sometimes referred to collectively herein as the "Controlled Entities." LLC 2, LLC 3, and LLC 4 are sometimes referred to collectively herein as the "Merged Disregarded Entities."

Financial information has been received that indicates that each of Business A and Business B have had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

For what are represented to be valid business purposes, the following transactions are proposed:

- (i) LLC 3 will distribute its aa percent of the issued and outstanding stock of Controlled 8 Sub to Distributing.
- (ii) Distributing will contribute its aa percent of the issued and outstanding stock of Controlled 8 Sub to LLC 4.

- (iii) LLC 4 will contribute its aa percent of the issued and outstanding stock of Controlled 8 Sub to Controlled 8, so that immediately afterwards Controlled 8 will own all the issued and outstanding stock of Controlled 8 Sub.
- (iv) The Merged Disregarded Entities will merge with and into LLC 1, with LLC 1 surviving and the Merged Disregarded Entities will cease to exist (the "Mergers"). In the Mergers, the shares of the Controlled Entities will be transferred to LLC 1. The transfer of the shares of the Controlled Entities to LLC 1 is sometimes referred to herein as the "Distributions."
- (v) Prior to the Mergers, the Controlled Entities will make a distribution of approximately \$cc (the "Cash Distribution") to the Merged Disregarded Entities. After the Mergers, LLC 1 will distribute the Cash Distribution to Parent.

The taxpayers have made the following representations in connection with the proposed transaction:

- (a) LLC 1, LLC 2, LLC 3, and LLC 4 are all disregarded entities within the meaning of § 301.7701-3.
- (b) Immediately before the Distributions, the only class of outstanding equity of the Controlled Entities will be common stock, 100 percent of which will be owned by the Merged Disregarded Entities and, therefore, treated as owned by Distributing for Federal income tax purposes.
- (c) Immediately after the Distributions, the only class of outstanding equity of the Controlled Entities will be common stock, 100 percent of which will be owned by LLC 1 and, therefore, treated as owned by Parent for Federal income tax purposes.
- (d) The Controlled Entities will not be indebted to Distributing except for cash management and inter-company payables and receivables, and such payables and receivables will not constitute stock or securities.
- (e) Following the Distributions, neither Distributing nor any of its subsidiaries will hold stock, rights, options, warrants, convertible securities or other similar securities of the Controlled Entities.
- (f) No part of the stock of the Controlled Entities to be transferred to LLC 1 is being received as a creditor, employee, or in any capacity other than that of a shareholder of Distributing.

- (g) The five years of financial information submitted on behalf of Distributing and the Controlled Entities is representative of each corporation's present operations and, with regard to each of these businesses, there have been no substantial operational changes since the date of the last financial statements submitted.
- (h) The transaction is not used principally as a device for the distribution of the earnings and profits of Distributing or the Controlled Entities or both.
- (i) Following the Distributions, Distributing and the Controlled Entities will each continue the active conduct of their respective businesses.
- (j) Except for cash management inter-company payables and receivables, no inter-corporate debt will exist between Distributing and any of the Controlled Entities at the time or, or subsequent to, the Distributions.
- (k) None of the parties to the proposed transaction is an investment company as defined in section 368(a)(2)(F)(iii) and (iv).
- (l) Payments made in connection with all continuing transactions, if any, between Distributing (or its affiliates) and the Controlled Entities (or its affiliates) will be at cost or for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length, in accordance with applicable regulatory requirements.
- (m) No person holds, and no person will hold as of the date of the Distributions, disqualified stock (as defined in section 355(d)(3)) that constitutes a 50 percent or greater interest (as defined in section 355(d)(4)) in either Distributing or any of the Controlled Entities.
- (n) The Distributions are not part of a plan or series of related transactions (within the meaning of section 355(e)) pursuant to which one or more persons will acquire (other than as a result of the Distributions) directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of Distributing or any of the Controlled Entities or stock possessing 50 percent or more of the total value of all classes of stock of Distributing or any of the Controlled Entities.
- (o) Immediately after the transaction (as defined in section 355(g)(4)), neither Distributing nor any of the Controlled Entities will be a disqualified investment corporation (within the meaning of section 355(g)(2)).

(p) The Distributions will be carried out for the following corporate business purposes: to reduce the administrative burden of regulatory oversight, cost savings, and to facilitate more efficient capital allocation among Parent's affiliated group. The Distributions are motivated, in whole or substantial part, by such corporate business purposes.

Based solely on the information submitted and the representations set forth above, we rule as follows:

- (1) For Federal income tax purposes, the Distributions described in step (iv), above, will be treated as if Distributing distributed all of the outstanding stock of the Controlled Entities, pro rata, to Parent (Rev. Rul. 77-191, 1977-1 C.B. 94).
- (2) Distributing will recognize no gain or loss and no amount will be included in its income upon the Distributions (section 355(c)).
- (3) Parent will recognize no gain or loss and no amount will be included in the income of Parent upon the Distributions (section 355(a)(1)).
- (4) Parent's aggregate tax basis in the stock of Distributing and each of the Controlled Entities will be the same as the tax basis in the stock of Distributing held by Parent immediately prior to the proposed transaction. The aggregate tax basis will be allocated among Distributing and each of the Controlled Entities in proportion to their relative fair market values in accordance with § 1.358-2(a).
- (5) The holding period of the Controlled Entities' stock received by Parent will include the holding period of the Distributing stock on which the Distributions will be made, provided Parent holds the Distributing stock as a capital asset on the date of the Distributions (section 1223(1)).
- (6) As provided in section 312(h), proper allocation of earnings and profits between Distributing and each of the Controlled Entities will be made under §§ 1.312-10(b) and 1.1502-33.
- (7) The Cash Distribution by the Controlled Entities to the Merged Disregarded Entities, followed by the Cash Distribution by LLC 1 to Parent (step (v), above) will be treated, for Federal income tax purposes, as a distribution of property under section 301, and will be treated as having been made immediately prior to the Distributions (§ 1.1502-13(f)(3)).

No opinion is expressed about the tax treatment of the proposed transaction under other provisions of the Code or regulations or the tax treatment of any conditions

existing at the time of, or effects resulting from, the proposed transaction that are not specifically covered by the above rulings. In particular, no opinion is expressed regarding: (i) whether the Distributions satisfy the business purpose requirement of § 1.355-2(b); (ii) whether the proposed transaction is used principally as a device for the distribution of the earnings and profits of Distributing or any of the Controlled Entities or both (see section 355(a)(1)(B) and § 1.355-2(d)); and (iii) whether the Distributions and an acquisition or acquisitions are part of a plan (or series of related transactions) under section 355(e)(2)(A)(ii).

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to the Federal income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Richard E. Coss
Senior Counsel, Branch 3
Office of Associate Chief Counsel
(Corporate)